

Rebuttal Testimony and Exhibits
Kyle D. White

Before the South Dakota Public Utilities Commission
of the State of South Dakota

In the Matter of the Application of
Black Hills Power, Inc., a South Dakota Corporation

For Authority to Increase Rates
In South Dakota

Docket No. EL14-026

January 15, 2015

003179

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EXHIBITS

- CONFIDENTIAL KDWR-1 Settlement Class Cost of Service Study
- CONFIDENTIAL KDWR-2 Large General Service Contract Bill Comparisons

1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Kyle D. White, 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am currently employed by Black Hills Service Company (“Service Company”), a
6 wholly-owned subsidiary of Black Hills Corporation (“BHC”), as Vice President
7 of Regulatory Affairs. My areas of responsibility include regulatory affairs for the
8 regulated utility subsidiaries of BHC.

9 **Q. FOR WHOM ARE YOU TESTIFYING ON BEHALF OF TODAY?**

10 A. I am testifying on behalf of Black Hills Power, Inc. (“Black Hills Power” or
11 “Company”).

12 **Q. DID YOU PROVIDE DIRECT TESTIMONY IN THIS DOCKET?**

13 A. Yes.

14 **II. PURPOSE OF REBUTTAL TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

16 A. The purpose of my rebuttal testimony is to support the Settlement Stipulation
17 (“Settlement Agreement”), reached between Black Hills Power and the South
18 Dakota Public Utilities Commission Staff (“Staff”). I specifically address: (1) the
19 status of settlement; (2) the FutureTrack Workforce Development program; (3)
20 incentive compensation; and (4) class cost of service. I also explain why the
21 positions taken by the opposing parties on these topics are unpersuasive. Lastly, I

1 address why the Company may not object if the Commission elects to modify
2 specifically articulated terms reflected in the Settlement Agreement.

3 **III. SETTLEMENT STATUS**

4 **Q. IS THERE A SETTLEMENT OF ALL RATE CASE ISSUES PENDING**
5 **BEFORE THE COMMISSION?**

6 A. Yes. On December 8, 2014, Black Hills Power entered into a Settlement
7 Agreement with Staff regarding all issues pertaining to the Company's application
8 for authority to revise electric rates. The Black Hills Industrial Intervenors
9 ("BHII") and Dakota Rural Action ("DRA") chose to not be parties to the
10 Settlement Agreement.

11 **Q. DOES BLACK HILLS POWER CONSIDER THE SETTLEMENT TO BE**
12 **COMPREHENSIVE?**

13 A. Yes. The Settlement Agreement represents the culmination of months of
14 substantial formal and informal discovery regarding the Company's operations. It
15 resulted from extensive negotiations between Commission Staff and the Company,
16 which at times also included all parties to this docket.

17 **Q. DOES THE SETTLEMENT AGREEMENT CONTAIN TERMS THAT**
18 **BENEFIT BHII?**

19 A. Yes, it does. Customers that comprise the BHII were primary beneficiaries of the
20 rate mitigation plan that is reflected in the Settlement Agreement. As a result, the
21 bill increases for BHII members are in a range of two to five percent.

1 Additionally, under the terms of the Settlement there will be no additional change
2 in base rates for at least two years.

3 **Q. DID BHII AND DRA FILE ANSWER TESTIMONY IN OPPOSITION TO**
4 **THE SETTLEMENT AGREEMENT?**

5 A. Yes and no. BHII filed testimony from two consultants, Mr. Steven J. Baron and
6 Mr. Lane Kollen. DRA did not file testimony in opposition to the Settlement
7 Agreement.

8 **Q. THROUGH ITS ANSWER TESTIMONY, DO YOU BELIEVE THAT BHII**
9 **HAS RAISED ISSUES THAT SUPPORT REJECTION OF THE**
10 **SETTLEMENT AGREEMENT?**

11 No, I do not. Although introducing new areas for the Commission to consider, the
12 answer testimony largely supports the numerous compromises reflected in the
13 Settlement Agreement. As an example, after 32 pages of testimony regarding the
14 class cost of service, Mr. Baron recommends that the Commission adopt the
15 apportionment of the overall revenue increase to the rate classes as reflected in the
16 Settlement Agreement. As illustrated in my rebuttal testimony, and the rebuttal
17 testimony of Black Hills Power's other rebuttal witnesses, in the areas in which
18 BHII's consultants' disagree with the terms of the Settlement Agreement the BHII
19 consultants' analysis is flawed. As a consequence, the BHII answer testimony
20 provides no evidence that would warrant the Commission rejecting the Staff and
21 its consultants' comprehensive assessment and complete settlement of all issues.

1 **Q. DOES THE COMPANY FULLY SUPPORT THE SETTLEMENT**
2 **AGREEMENT?**

3 A. Yes. The revenue requirement reflected in the Settlement Agreement is consistent
4 with the utility's cost to meet its obligation to serve its South Dakota customers. If
5 approved, the Settlement Agreement will result in just and reasonable rates. As a
6 result, the Company fully supports the Settlement Agreement that is presently
7 before the Commission.

8 However, as indicated later in my testimony and the testimony of Jon Thurber,
9 there are opportunities before the Commission to modify specific terms of the
10 Settlement Agreement that would not likely be opposed by the Company. Those
11 areas include possible changes to the rate treatment of certain customers and an
12 adjustment for O&M costs associated with the Wyodak facility.

13 **Q. IF THE COMMISSION APPROVED THE SETTLEMENT AGREEMENT,**
14 **WOULD THE APPROVAL SET PRECEDENT FOR FUTURE RATE**
15 **CASE DOCKETS?**

16 A. No, it would not.

17 **IV. FUTURETRACK WORKFORCE PROGRAM**

18 **Q. DOES THE SETTLEMENT WITH STAFF REQUEST APPROVAL OF**
19 **THE FUTURE TRACK PROGRAM THAT WAS INCLUDED IN THE**
20 **COMPANY'S FILED POSITION?**

21 A. No. Settlements generally do not address questions of policy, like the innovative
22 eight-year Future Track workforce development proposal, unless there has been

1 prior Commission guidance or direction provided in previous decisions and orders.
2 The Settlement only provides for rate recovery of employees hired in 2014. It does
3 not include future expenses, the tracking of expenses, or reporting requirements as
4 contemplated by the proposed program.

5 **Q. NOTWITHSTANDING THE FACT THAT THE PROGRAM IS NOT**
6 **INCLUDED IN THE SETTLEMENT AGREEMENT, DOES MR. KOLLEN**
7 **PROPERLY EXPLAIN IN HIS TESTIMONY THE FUTURE TRACK**
8 **WORKFORCE PROGRAM THAT THE COMPANY INCLUDED IN ITS**
9 **FILED POSITION?**

10 A. No. The Commission should review the testimony of Black Hills Power witness
11 Jennifer Landis if it wants to fully understand the proposed workforce
12 development program, the circumstances that have created the need to modify
13 traditional approaches to attracting and developing new employees into key
14 operational roles, and the need to mitigate the operational and safety risks
15 associated with replacing an unprecedented number of employees from the
16 Company's experienced workforce.

17 **Q. MR. KOLLEN STATES ON PAGE 27 OF HIS TESTIMONY, "IN ANY**
18 **EVENT, THE COMPANY HAS PROVIDED NO EVIDENCE THAT THE**
19 **PRACTICE IS NECESSARY OR THE ONLY WAY THAT IT CAN**
20 **RECRUIT OR FILL ENTRY-LEVEL POSITIONS AT THE COMPANY."**
21 **DO YOU AGREE?**

1 A. No. Ms. Landis’ testimony provides extensive evidence that supports the need to
2 be more thoughtful and aggressive in ensuring Black Hills Power’s customers
3 have the benefit of a qualified and cost-effective workforce in the future.
4 Curiously, Mr. Kollen directs the Commission to learn about the programs
5 available to students at Mitchell Technical Institute as evidence that new
6 employees will be available for hire by Black Hills Power. What he fails to
7 recognize is the information contained in Ms. Landis’ testimony that indicates,
8 “...approximately 25 companies are working with Mitchell Technical Institute
9 (“MIT”) to provide scholarships for MIT students that require employment with
10 the sponsoring company following graduation.”

11 While Mr. Kollen is correct that the Future Track Program is not the only way to
12 attract the needed employees, Future Track only focused on replacing retiring
13 employees in positions critical to maintaining safe and reliable service. The
14 Company would still be in the “market’ looking for employees related to normal
15 employee turnover, which may increase due to expected higher industry demand
16 for employees with the desired skill sets. Since the employees included in the
17 proposed Future Track program would be in high-skill technical positions which
18 require significant training (often years) to become qualified, it would likely be
19 necessary to increase staffing and compensation levels in order to maintain the
20 appropriate staffing levels required to meet operational and safety standards.

21 **Q. DID MR. KOLLEN PROPERLY DESCRIBE THE PROPOSED**
22 **REGULATORY ASSET AND THE TRACKING OF PROGRAM COSTS?**

1 A. No, he says the “request is inappropriately open-ended.” This is false. The
2 program identified specific positions that would be open solely due to retirements,
3 identifies specific trackable cost categories (like scholarships and training), a
4 specific time frame (8 years) and the opportunity for the Commission to review
5 program costs for reasonableness on an annual basis.

6 He also says, “The Company has not proposed a measurement baseline that
7 defines how the payroll and related expenses associated with this program can and
8 will be differentiated from any other payroll and related expenses.” This again is
9 false, Ms. Landis on page 13 describes in detail how program costs would be
10 tracked and charged to the regulatory account. She also provides program specifics
11 through Exhibit JCL-1.

12 Finally, Mr. Kollen claims, “The Company is not adequately incentivized to
13 operate efficiently if there is no defined measurement baseline and it can defer
14 (and later recover) any amount in excess of the allowed amount.” This claim is
15 also false. The final paragraph of Exhibit JCL-1 states:

16 **“Program Expense True-Up:** Retirement decisions are highly personal and
17 workers may decide to alter their retirement plans to either work longer or retire
18 sooner. Because of this, the cost of the program is expected to fluctuate over time.
19 In addition to reporting the program’s status to the Commission annually, we
20 recommend a true-up audit be performed in 5 years. Any expenses planned for but
21 not realized will be returned to Black Hills Power customers. Likewise, any

1 reasonable and documented expenses that exceed the approved Future Track
2 regulatory account will be brought before the Commission for reimbursement.”

3 **V. INCENTIVE COMPENSATION**

4 **Q. HAVE ANY OF THE PARTIES TO THIS RATE CASE DEMONSTRATED**
5 **THAT INCENTIVE COMPENSATION IS AN “IMPRUDENT” EXPENSE**
6 **FOR INCLUSION IN BLACK HILLS POWER’S REVENUE**
7 **REQUIREMENT?**

8 A. No, the BHII’s have only alleged through Mr. Kollen’s testimony that for
9 subjective reasons the Commission should reject board and management decisions
10 regarding the required compensation practices needed to staff the organization and
11 meet the obligation to serve. No evidence was presented that the total
12 compensation paid to employees was imprudent or unreasonable based upon what
13 the market pays employees for similar positions.

14 **Q. IS IT COMMISSION PRECEDENT TO DENY RECOVERY OF**
15 **INCENTIVE COMPENSATION EXPENSE TIED TO OPERATING AND**
16 **FINANCIAL PERFORMANCE, AS MR. KOLLEN STATES ON PAGE 35**
17 **OF HIS TESTIMONY?**

18 A. Although I am not aware of a specific Commission decision regarding the
19 inclusion of incentive compensation for determining a utility’s revenue
20 requirement, I do know that the Commission has approved rate case settlements
21 where the revenue requirement included expenses for employee incentive
22 compensation. In fact, some of Mr. Kollen’s clients in this docket have been

1 parties to prior settlements approved by the Commission that included incentive
2 compensation expense within the revenue requirement.

3 **Q. MR. KOLLEN STATES ONE OF THE REASONS TO DENY RECOVERY**
4 **OF INCENTIVE COMPENSATION EXPENSE IS THAT, “THE**
5 **COMPANY’S FINANCIAL PERFORMANCE IS A DIRECT FUNCTION**
6 **OF THE REVENUES RECOVERED FROM CUSTOMERS, INCLUDING**
7 **THE RATE INCREASES THAT ARE AUTHORIZED BY THE**
8 **COMMISSION.” DO YOU SHARE THIS VIEW?**

9 A. Revenues are an important component of the financial performance of all
10 businesses. What Mr. Kollen has failed to acknowledge is that a company’s ability
11 to serve customers and meet customer demands is also a direct function of the
12 revenues recovered from customers. If revenues are inadequate to support the
13 needs of the business, then changes to the business must occur or customer and or
14 owner expectations will not be met. He also fails to acknowledge that the
15 financial performance of any company is also a direct function of how well the
16 company controls costs and expenses. Effective cost controls in a business where
17 revenue levels are regulated is a critical aspect of avoiding even higher rate
18 requests in the future.

19 **Q. ON PAGE 36 OF MR. KOLLEN’S TESTIMONY HE STATES, “THERE IS**
20 **AN INHERENT CONFLICT BETWEEN LOWER RATES AND GREATER**
21 **FINANCIAL PERFORMANCE.” DO YOU AGREE?**

1 A. No. Financial performance is not solely the result of rate increases. Financial
2 performance (profitability) for a utility is primarily influenced by the level of its
3 expenses. Profitability can be enhanced through efficiency and lowering of costs,
4 increasing sales or increasing prices.

5 **Q. ANOTHER POINT MR. KOLLEN MAKES IS THAT, “THE REVENUE**
6 **REQUIREMENT SHOULD NOT EMBED RECOVERY OF AN EXPENSE**
7 **THAT IS BASED ON PERFORMANCE” BECAUSE, “IF THE COMPANY**
8 **IS ENSURED RECOVERY OF THE EXPENSE FROM CUSTOMERS,**
9 **THEN THERE IS NO PERFORMANCE THAT IS AT RISK OR THAT**
10 **MUST BE ACHIEVED IN ORDER TO RECOVER THAT EXPENSE.” DO**
11 **YOU AGREE?**

12 A. No, I do not. The Company’s incentive compensation practices are designed to
13 incent and reward employees for achieving planned operating and financial
14 results. The practices are designed to encourage employee initiative and other
15 behaviors that will result in a sustainable and successful company. There are
16 numerous benefits for customers when a company’s employees receive incentive
17 income to achieve these results.

18 **Q. MR. KOLLEN TELLS THE COMMISSION IT “SHOULD NOT**
19 **INCENTIVIZE THE COMPANY TO SEEK GREATER RATE**
20 **INCREASES AND ACT AGAINST THEIR CUSTOMERS’ INTERESTS.”**
21 **DO YOU BELIEVE THAT FUTURE SOUTH DAKOTA REGULATORS**
22 **WOULD FAIL TO SET JUST AND REASONABLE RATES IF THE**

1 **COMMISSION APPROVED A SETTLEMENT THAT INCLUDES**
2 **EXPENSES FOR INCENTIVE COMPENSATION?**

3 A. No. The Staff and the Commission have demonstrated exceptional competence in
4 auditing and assessing Black Hills Power’s business and ensuring that rate
5 changes are just and reasonable. If Mr. Kollen’s premise is that incentive
6 compensation leads to more frequent rate increases, then this would have come to
7 be true once the Company began utilizing incentive compensation practices. Black
8 Hills Power’s rate case history does not support this outcome.

9 **Q. MR. KOLLEN STATES ON PAGE 36 OF HIS TESTIMONY, “THIS FORM**
10 **OF INCENTIVE COMPENSATION IS PRIMARILY DIRECTED**
11 **TOWARD ACHIEVING SHAREHOLDER GOALS, NOT CUSTOMER**
12 **GOALS.” DO YOU AGREE?**

13 A. No. As explained in the direct testimony of Laura Patterson, incentive
14 compensation is a component of most utilities’ and corporations’ direct
15 compensation paid to attract and retain qualified employees. Our employment
16 locations are frequently in the less populated locations of the Country. This means
17 employees coming to these locations will have few local employment options if
18 they choose to leave. Their spouses will also see their employment options limited.
19 Historically, we could expect employees to stay and “earn” their pension. This
20 retention mechanism has diminished since the Corporation froze its defined
21 benefit pension plan. With these factors already in play, a competitive total direct

1 compensation offering is essential for meeting our obligation to serve South
2 Dakota electric customers.

3 **Q. MR. KOLLEN STATES THAT BOTH THE RESTRICTED STOCK**
4 **EXPENSE AND THE PERFORMANCE PLAN EXPENSE ARE TIED TO**
5 **THE COMPANY'S FINANCIAL PERFORMANCE. IS THE**
6 **RESTRICTED STOCK EXPENSE TIED TO FINANCIAL**
7 **PERFORMANCE?**

8 A. No. As explained in Ms. Patterson's direct testimony on page 14, "restricted stock
9 is granted to key employees and vests ratably over a 3-year period. The purpose of
10 the 3-year vesting period for both the restricted stock and the performance shares
11 is to get retention of key employees." Once restricted stock is granted to a key
12 employee the only requirement for pay-out is the employee's continued
13 employment.

14 **Q. HAS BLACK HILLS POWER BEEN GRANTED RECOVERY OF**
15 **INCENTIVE COMPENSATION EXPENSES IN OTHER**
16 **JURISDICTIONS?**

17 A. Yes, last summer the Wyoming Public Service Commission approved a settlement
18 with the Office of Consumer Advocate that included 100% of the requested
19 incentive compensation in the revenue requirement.

20 **Q. DOES THE SETTLEMENT WITH STAFF INCLUDE 100% OF THE**
21 **COMPANY'S INCENTIVE COMPENSATION COSTS?**

1 A. No, as Mr. Kollen points out, \$666,000 has been removed from expense for
2 determining the proposed revenue requirement.

3 **Q. IF THE COMMISSION ACCEPTED MR. KOLLEN'S POSITION AND**
4 **REMOVED THE REMAINING INCENTIVE COMPENSATION FROM**
5 **THE UTILITY'S REVENUE REQUIREMENT, WHAT WOULD BE THE**
6 **RESULT?**

7 A. I believe he has recommended, on page 35, that the entire incentive compensation
8 expense be disallowed. This would be the equivalent of the Commission lowering
9 Black Hills Power's authorized return on equity by in excess of 20 basis points.
10 The substance, depth and nature of Mr. Kollen's testimony in no way justifies a
11 punitive outcome for the Company for utilizing normal and reasonable employee
12 compensation practices that are prevalent across the utility industry and other
13 companies in the Black Hills region. For the Commission to remove from the
14 Settlement Agreement incentive compensation expense would be contrary to the
15 principle of utility regulation which requires a utility be allowed a reasonable
16 opportunity to recover actual costs prudently incurred in providing service to its
17 customers. The Settlement Agreement as presented will result in just and
18 reasonable rates for Black Hills Power's South Dakota customers.

19 **VI. CLASS COST OF SERVICE**

20 **Q. MR. WHITE, HAVE YOU READ THE ANSWER TESTIMONY FILED ON**
21 **BEHALF OF BHII BY MR. BARON?**

22 A. Yes, I have.

1 **Q. DOES MR. BARON RECOMMEND THAT THE COMMISSION REJECT**
2 **THE CLASS COST OF SERVICE THAT IS REFLECTED IN THE**
3 **SETTLEMENT AGREEMENT?**

4 A. No, he does not. After 32 pages of testimony on the subject, Mr. Baron
5 recommends that the Commission adopt the apportionment of the overall revenue
6 increase to the rate class as reflected in the Settlement Agreement.

7 **Q. IF MR. BARON DOES NOT OPPOSE THE CLASS COST OF SERVICE,**
8 **THEN WHAT ACTIONS HAS HE RECOMMENDED THAT THE**
9 **COMMISSION TAKE ON THIS SUBJECT?**

10 A. Mr. Baron identifies a number of alternative methodologies that he believes should
11 be utilized by the Company in its class cost of service. While he characterizes his
12 proposed alternative as corrections of “errors” in the Company’s class cost of
13 service, in most instances the changes he proposed are simply different approaches
14 that he believes could be taken. Ultimately, Mr. Baron states, “The commission
15 should require BHP to file a class cost of service study in its next base rate case
16 reflecting the corrections that I have discussed in my testimony. At a minimum,
17 the Company should be required to file an alternative class cost of service study
18 (in addition to its preferred method) reflecting the corrections that I am
19 recommending. The changes to the company’s study that I have presented provide
20 a more appropriate basis to evaluate the reasonableness of the Company’s rates.”

21 **Q. DO YOU SUPPORT MR. BARON’S REQUEST THAT BLACK HILLS**
22 **POWER BE ORDERED TO PREPARE A CLASS COST OF SERVICE**

1 **STUDY THAT INCORPORATED BHII’S RECOMMENDATIONS FOR**
2 **ITS NEXT BASE RATE APPLICATION?**

3 A. No.

4 **Q. WHY ARE YOU NOT SUPPORTIVE OF MR. BARON’S REQUEST?**

5 A. First, I disagree with Mr. Baron’s suggestion that the proposed alternative
6 methodologies are “corrections” to the class cost of service study.

7 Second, the Company has the burden of proof regarding the reasonableness of its
8 rates and should be free to determine the evidence it believes is necessary and
9 appropriate to support its future applications. Mr. Baron’s approach, particularly
10 the requirement of an “alternative study” to Black Hills Power’s “preferred
11 method,” only works to burden the Company and its customers with the costs that
12 should be borne by BHII as part of its review of the application and litigation
13 preparation. I believe our other customers already shoulder too much of the
14 litigation cost resulting from BHII’s participation in Black Hills Power’s base rate
15 case proceedings.

16 Third, I don’t agree with many of Mr. Baron’s conclusions and as a result, the
17 Company would not want to have to work around class cost of service
18 requirements designed to benefit a handful of large customers.

19 **Q. GIVEN THE NUMEROUS PROPOSED MODIFICATIONS THAT MR.**
20 **BARON IDENTIFIES IN HIS TESTIMONY, WHY DO YOU THINK HE**
21 **SUPPORTS STAYING WITH THE CLASS COST OF SERVICE THAT IS**
22 **REFLECTED IN THE SETTLEMENT AGREEMENT?**

1 A. I don't know, but I believe that it is fair to assume that his clients are benefitting
2 through lower cost allocations by the Company's approach and the rate increase
3 mitigation it has implemented.

4 **Q. MR. WHITE, GIVEN THAT MR. BARON HAS SUGGESTED THAT THE**
5 **COMMISSION ORDER THE COMPANY TO MAKE MODIFICATIONS**
6 **TO ITS CLASS COST OF SERVICE STUDIES IN THE FUTURE, WOULD**
7 **YOU CARE TO RESPOND TO SOME OF MR. BARON'S FINDINGS**
8 **REGARDING BLACK HILLS POWER'S CLASS COST OF SERVICE?**

9 A. Yes, I first will address the suggested modifications that the Company agrees
10 should be changed.

11 **Q. WHAT AREAS OF AGREEMENT DO YOU HAVE WITH MR. BARON'S**
12 **TESTIMONY?**

13 A. The Company agrees, as he suggests on page 11 of his testimony, that it would
14 have been more appropriate to determine the annual system load factor using a
15 single coincident peak demand. The Company also agrees, as pointed out on page
16 11, that it was an oversight to not include "excess demand" for our total-electric
17 customers. The Company also accepts his recommendation on page 23 that a
18 separate allocation of 69kV sub transmission costs should occur in the manner that
19 is demonstrated in my CONFIDENTIAL Exhibit KDWR-1.

20 **Q. DOES THE COMPANY ACCEPT MR. BARON'S SUGGESTION THAT**
21 **ACCOUNT 369 SERVICES SHOULD BE ALLOCATED UTILIZING**
22 **MORE OF A CUSTOMER-RELATED ALLOCATOR?**

1 A. The Company agrees that the allocation should not be based on non-coincident
2 peak. For purposes of this docket a customer count allocation is acceptable. For
3 its next rate case application the Company intends to utilize a customer oriented
4 allocation.

5 **Q. IF THE COMPANY WERE TO FILE A CLASS COST OF SERVICE**
6 **STUDY IN THE FUTURE, WOULD THESE SUGGESTED CHANGES BE**
7 **MADE?**

8 A. Yes. In addition, the changes are also reflected in CONFIDENTIAL Exhibit
9 KDWR-1.

10 **Q. DO YOU HAVE A RECOMMENDATION REGARDING HOW BEST TO**
11 **ALLOCATE 69KV SUB TRANSMISSION FACILITIES AND RELATED**
12 **COSTS?**

13 A. Yes. There are two customers that receive service at 69kV. One customer is
14 currently served under a Business Development Service agreement. The other has
15 contracted for service under the Industrial Contract Service tariff. For much of my
16 career, General Service Large and Industrial Contract Service were separate
17 classes for allocating costs. Based upon Mr. Baron's desire to ensure that his
18 69kV service client is not allocated distribution costs, I would recommend
19 returning to a separate Industrial Contract Service class.

20 **Q. DO YOU HAVE AN EXHIBIT THAT SHOWS THE CLASS COST OF**
21 **SERVICE THAT RESULTS FROM THIS CHANGE?**

1 A. Yes, CONFIDENTIAL Exhibit KDWR-1 shows how this would work in this case
2 and includes the other recommended modifications that I have indicated above
3 that the Company supports.

4 **Q. DOES THAT CONCLUDE THE AREAS OF AGREEMENT?**

5 A. Yes.

6 **Q. ARE THERE MODIFICATIONS THAT MR. BARON HAS SUGGESTED**
7 **THAT YOU DO NOT SUPPORT?**

8 A. Yes. I disagree with Mr. Baron’s recommendations that the Commission make
9 changes to future class cost of service studies for a “minimum Distribution
10 System” and for curtailable/interruptible loads.

11 **Q. DOES THE COMPANY AGREE THAT A MINIMUM DISTRIBUTION**
12 **SYSTEM APPROACH SHOULD BE USED FOR ALLOCATING**
13 **DISTRIBUTION COSTS BETWEEN CUSTOMER CLASSES?**

14 A. No. Black Hills Power believes that the historic approach should be continued for
15 purposes of the South Dakota class cost of service studies. Consistency can be
16 important in rate making and we see no material overall benefit in determining just
17 and reasonable rates that would result from this change.

18 **Q. DOES BLACK HILLS POWER HAVE ANY SIGNIFICANT**
19 **INTERRUPTIBLE LOAD ON ITS SYSTEM?**

20 A. No.

21 **Q. DOES MR. BARON REPRESENT THAT THE COMPANY HAS** [REDACTED]
22 **OF INTERRUPTIBLE/CURTAILABLE LOAD ON ITS SYSTEM?**

1 A. Yes.

2 **Q. WHY DO YOU THINK HE BELIEVES THIS?**

3 A. [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED], Mr.

7 Baron's analysis is flawed for two reasons. First and foremost, [REDACTED]

8 [REDACTED] Second, as I

9 explain below, Mr. Baron's conclusion that the load in question constitutes
10 interruptible load is incorrect.

11 **Q. NOTWITHSTANDING THE FACT THAT MR. BARON IS INCORRECT**
12 **IN HIS BELIEF THAT THERE IS INTERRUPTIBLE LOAD ON BLACK**
13 **HILLS POWER'S SYSTEM, DO YOU WANT TO ADDRESS HIS**
14 **TESTIMONY ON THIS TOPIC?**

15 A. Yes, I would like to address his testimony on this topic to ensure that the
16 Commission has accurate information before it upon which it can base the
17 decisions that it will make in this docket.

18 **Q. DOES BLACK HILLS POWER HAVE [REDACTED] OF LOAD THAT COULD**
19 **BE VIEWED AS CURTAILABLE?**

20 A. Yes, the Company confirmed this in response to [REDACTED]

21 **Q. PLEASE EXPLAIN HOW YOU DIFFERENTIATE BETWEEN**
22 **INTERRUPTIBLE AND CURTAILABLE SERVICE.**

1 A. Interruptible service is where the utility has complete control over whether the
2 defined electric load is served. This often is accomplished with a remote
3 disconnect that is operated solely by the utility. The customer has no ability to
4 maintain utility provided electric service if the utility determines that the load
5 should be interrupted for the benefit of the electric system.

6 Curtailable service occurs when a customer has contracted to reduce its load by a
7 specified amount or to a specified level when requested to do so by the utility.

8 Compliance with the request is at the discretion of the customer and failure to do
9 so frequently results in a financial consequence to the customer. The level of
10 financial consequence is determined by the customer's willingness to pay and the
11 utility's perspective regarding whether the curtailable load is viewed as a firm
12 long-run resource or a vehicle to justify pricing concessions. Black Hills Power
13 has experience treating curtailable load both ways. Our experience has also been
14 that our customers like the pricing provisions but not the curtailments.

15 **Q. DO YOU DEFINE THE [REDACTED] LOAD IN QUESTION AS AN**
16 **INTERRUPTIBLE LOAD?**

17 A. No. The utility does not have direct control over whether the load referred to by
18 Mr. Baron is served by its electric system.

19 **Q. DO YOU CONSIDER THIS TO BE A CURTAILABLE LOAD?**

20 A. It has curtailable characteristics, but the [REDACTED] has limitations as long-
21 run curtailable load. The curtailments are constrained, [REDACTED]

22 [REDACTED]

1

[REDACTED]

2

[REDACTED]

3

[REDACTED]

4

[REDACTED]

5 **Q. WHAT IS THE HISTORY OF HOW THIS PROVISION CAME INTO**
6 **EXISTENCE?**

7 A.

[REDACTED]

8

[REDACTED]

9

[REDACTED]

10

[REDACTED]

11

[REDACTED]

12

[REDACTED]

13

[REDACTED]

14

[REDACTED]

15

[REDACTED]

16

[REDACTED]

17

[REDACTED]

18

[REDACTED]

19

[REDACTED]

20 **Q. DO YOU CONSIDER THIS ARRANGEMENT TO BE ONE THAT**
21 **WARRANTS BEING VALUED AS AVOIDING FUTURE COMBUSTION**
22 **TURBINE INVESTMENTS, AS MR. BARON RECOMMENDS?**

1 A. No. The provision does not create a long-run reliable resource for meeting Black
2 Hills Power’s obligation to serve.

3 **Q. IN PREPARING ITS CLASS COST OF SERVICE, DID BLACK HILLS**
4 **POWER INCLUDE ALL OF THE BILLING UNITS AND ASSOCIATED**
5 **REVENUES FOR THE [REDACTED] [REDACTED] [REDACTED]**
6 **CUSTOMER’S FIRM LOAD WITHOUT A REDUCTION FOR THE NON-**
7 **STANDARD NATURE OF THE BILLING ARRANGEMENT?**

8 A. Yes. The [REDACTED] Customer’s load is not interruptible and there
9 is no “revenue credit” for the [REDACTED] of expected load reduction. The [REDACTED]
10 [REDACTED] Billing Capacity is billed whether the customer’s [REDACTED] monthly
11 metered demand is below or above this amount. It is the “deemed” on-peak
12 demand.

13 **Q. [REDACTED]**
14 **[REDACTED]**
15 **[REDACTED]**
16 **[REDACTED]**

17 A. **[REDACTED]**
18 **[REDACTED]**
19 **[REDACTED]**

20 **Q. WHAT ACTIONS DO YOU RECOMMEND THE COMMISSION TAKE**
21 **WITH RESPECT TO THE CLASS COST OF SERVICE?**

1 A. Black Hills Power fully supports the Settlement Agreement. However, the
2 Company would likely not object if the Commission elected to make the
3 modifications that I addressed above in my testimony and are reflected in
4 CONFIDENTIAL Exhibit KDWR-1.

5 **Q. WHAT IS THE RESULT IF THE COMMISSION ELECTS TO MAKE THE**
6 **MODIFICATIONS DEPICTED IN CONFIDENTIAL EXHIBIT KDWR-1?**

7 A. [REDACTED]
8 [REDACTED]
9 [REDACTED]

10 **VII. CONCLUSION**

11 **Q. WHAT IS THE COMPANY’S VIEW REGARDING POSSIBLE**
12 **COMMISSION MODIFICATION TO ITS SETTLEMENT OF ALL RATE**
13 **CASE ISSUES WITH COMMISSION STAFF?**

14 A. Normally, I would be advocating only for a bench decision of approval of the
15 settlement and related electric tariffs without Commission modification. This
16 would be required because all parties had agreed to comprehensive settlement of
17 all contested issues. This often is referred as a “package deal” and is defended
18 because of the compromise of the parties to reach a common agreement. To
19 change one component of the settlement could diminish the perceived and/or
20 expected value of one of the parties to the settlement.

21 In this case, Black Hills Power’s primary interest is in the agreed upon \$6.89
22 million increase to its revenue requirement, along with a reasonable expectation

1 that the Commission approved rates and tariffs will allow for the recovery of this
2 revenue requirement from South Dakota electric customers. In this situation,
3 where the rate case is being litigated by some of the parties, the Company, with
4 Staff's support, can more readily accept changes in cost allocations to the
5 customer classes, along with rate schedule and tariff changes. In fact, a litigated
6 case such as this may afford the Commission the opportunity to reduce inter and
7 intra class subsidies, along with consolidation of legacy rate schedules or pricing
8 practices that it believes are no longer warranted by today's circumstances.

9 **Q. WHAT LEGACY PRICING PROVISIONS WOULD YOU LIKE THE**
10 **COMMISSION TO BE AWARE OF?**

11 A. There are three. The first is a substantial under recovery of one customer's cost of
12 service. This has been highlighted in my rebuttal testimony where I propose

13 [REDACTED]

14 [REDACTED] (refer to CONFIDENTIAL Exhibit
15 KDW-1). [REDACTED]

16 [REDACTED]

17 The second is the Large Power Contract Service tariff where, with the exception of
18 the pricing, minimum service capacity of 6,000 kVA and the term of service
19 provisions, the tariff largely mirrors the General Service Large (Optional
20 Combined Account Billing). The sole customer receiving service under this tariff
21 combined loads [REDACTED] and are not distinctly
22 different from those of the customers receiving service under the General Service

1 Large (Optional Combined Account Billing). [REDACTED]

2 [REDACTED]

3 [REDACTED] In this situation, the Commission could close the rate schedule, set the
4 rate equal to the General Service Large (Optional Combined Account Billing) and
5 require the Company to give the appropriate notice to terminate the service
6 agreement.

7 The third legacy pricing provision is [REDACTED]

8 [REDACTED] This customer's service and load characteristics today also are
9 not distinctly different from the customers receiving service under the General
10 Service Large (Optional Combined Account Billing). [REDACTED]

11 [REDACTED]

12 [REDACTED] In this case, the Commission
13 could order a modification [REDACTED] to remove
14 legacy base rate pricing provisions.

15 **Q. ARE YOU ASKING THE COMMISSION TO MAKE THESE**
16 **MODIFICATIONS TO THE SETTLEMENT AGREEMENT PRIOR TO**
17 **APPROVING IT?**

18 A. No, I am only advising the Commission that it has this opportunity and that the
19 Company would likely not oppose changes of this nature.

20 **Q. ARE THERE OTHER MODIFICATIONS TO THE SETTLEMENT**
21 **AGREEMENT THAT THE COMPANY MAY SUPPORT?**

1 A. Yes, as discussed in the testimony of Jon Thurber, the Company would also be
2 supportive of an adjustment to the O&M costs associated with the Wyodak
3 facility.

4 **Q. ARE YOU ASKING THE COMMISSION TO MAKE THESE**
5 **MODIFICATIONS TO THE SETTLEMENT AGREEMENT BEFORE**
6 **APPROVING IT?**

7 A. No. I am only advising the Commission that the Company may not object if the
8 Commission thought these modifications were justified.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes.